Congress of the United States
Washington, DC 20515

November 15, 2021

Steven E. Seitz, Director
Elizabeth Brown, Senior Insurance Regulatory Policy Analyst
Federal Insurance Office
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Seitz and Ms. Brown:

We write in response to the recent Request for Information (RFI) issued by the Federal Insurance Office (FIO) concerning FIO's possible future work related to the insurance sector and climate-related financial risk. We have serious concerns regarding FIO making assessments of the insurance industry and the state regulatory system without thoughtful and deliberate analysis of the consequences that could arise from such actions. We are also concerned that FIO and the administration appear to have developed certain foregone conclusions that appear to be more focused on advancing climate-focused political priorities. Climate-related data collected with such goals in mind could easily be used to justify federal overreach into insurance regulation. Consequently, we urge you to seek out input from industry leaders outside of the RFI in order to fully understand the possible consequences of any future federal actions related to climate risk in the insurance industry, and we ask that you work diligently to separate political goals from the thorough data-gathering and analysis that must underpin this process.

As you know, assessing and managing risk are central to the business of insurance, and property & casualty insurers have a long and continuing history of assessing and managing changes in their insured risks, including weather and climate-related risks, which are not new risks. Insurers do their best to continually match price to risk to maintain their financial strength and to provide fairly priced affordable insurance coverage and participate in an orderly and competitive capital market for the insurance. The centrality of risk management to insurance is reflected in the Federal Reserve's recent assessment that despite the possibility that climate change may affect their leverage, property & casualty insurers' "low leverage allowed [them] to cover claims from recent severe weather events without solvency issues." Insurers have also long supported risk mitigation research and are increasingly providing voluntary insights into how they incorporate climate change into their risk assessment and planning. Accordingly, any suggestion that insurers are taking insufficient action to address risks related to climate change – or that they should be subjected to redundant federal regulation because of climate change – appears to be rooted in a fundamental misunderstanding of the business of insurance. Any such suggestion also fails to acknowledge that state departments of insurance rigorously regulate insurers' solvency and that in the unlikely event that a licensed insurer fails, claims continue to be paid by state guaranty funds.

In the property & casualty sector, shorter-term contracts allow insurers to regularly evaluate changes to risks – including climate risk – and permit insurers to react swiftly to changing conditions. Insurers are already subject to rigorous state-level requirements to ensure that their risk management practices account for all relevant risks, including climate-related risks. State regulators and the National Association of Insurance Commissioners (NAIC) have several work streams well underway to develop robust analyses and best practices to evaluate the industry's ability to manage climate risk. FIO should not duplicate or undermine this work. Instead, the agency should work with state insurance regulators for the sole purpose of gaining a better understanding of those ongoing work streams and how the industry is adapting to climate-related weather events. Actively seeking industry input is critical to good policymaking, and we hope FIO will keep an open line of communication with U.S. insurers to understand first-hand the issues related to climate risk that are specific to the industry and work together with all parties interested in the climate issues to ensure the insurance industry continues to be able to offer affordable, fairly priced insurance products while maintaining a competitive market with well capitalized insurers able to respond to all types of catastrophe events as they occur.

A number of questions arise when collecting climate-related data, and there are even more assumptions that need to be made to evaluate the possible future risks that correlate with this data. Property & casualty underwriting is based primarily on historical data and trends using models which help insurers assess a range of insurance risks. While some insurers may consider climate models helpful for certain planning purposes, such models are inadequate tools for fairly pricing geographically specific insurance products due to the variability and uncertainty inherent in the long-term forecasting of weather and climate events. These challenges would only be amplified if such models were used by the federal government at a larger scale. Californians do not face the same climate-related risks as South Carolinians and Hoosiers, and this remains true when looking at every state in between. The current state-based system of U.S. insurance regulation helps to ensure that these differences are taken into account and that certain gaps in the insurance market are filled.

Some in the insurance industry feel that the federal government could help with this state-run process by facilitating climate data collection. It is true that a centralized organization within the federal government to gather and analyze climate-related data could potentially be of assistance in developing a more complete assessment of climate risks, and while FIO could promote uniformity and consistency in climate-related financial disclosures, FIO needs to carefully consider the work of other agencies to avert unnecessary duplication. There may be a value in FIO providing a centralized link for insurers to the plethora of climate data already collected and analyzed by the federal government, but FIO's role should be limited to a conduit and not an arbitrator of data relevance and importance. We are also very concerned that FIO may attempt to collect data from insurers for purposes outside of the agency's statutory mission. In particular, it seems that the administration is attempting to establish a cataclysmic prophesy arising out of its own speculative policy choices. For instance, several administration officials and third-party stakeholders have asserted without basis in fact that life insurers may be subject to significant transition risk through the negative consequences affecting certain industries in attempting to reach a "net-zero" economy. Consequentially, we are concerned that if investment data is collected from individual insurance companies, that data could be erroneously manipulated to assert that the industry is vulnerable to a drop in asset prices. Even more troubling, that data could be used in a campaign to shame companies into ceasing activities that are not favored by the political party in power. Sadly, this is a reasonable concern in today's political climate, and it is a concern that we share.

In summary, we are deeply concerned with the motives behind the administration's push to involve FIO in addressing climate risk for a number of reasons. If FIO is to proceed with its focus on climate-related risk, we sincerely ask that the input of insurers and their customers is heard and taken into account via a partnership to understand, to represent, and to facilitate fair and equitable assessments of risk and the need for protection to be provided to society. Effects on the ability of the insurance industry to be able to provide policyholder protection at an affordable price and maintain a well-capitalized insurance sector should be well understood by FIO prior to speaking about how climate risk affects the insurance industry. Insurers understand climate risk, their business, their investments, and how to protect policyholders far better than the politically motivated outside interest groups that have made broad false claims about insurers' transition and business risks. These claims are not grounded in the facts, misunderstand the business of insurance by failing to recognize that risk assessment and management are fundamental, and do not reflect the health of the industry or the rigor of our state system of insurance regulation. Not all insurers are the same, and not all states are the same. Therefore, their risks will not be the same. Neither the insurance industry nor American families and businesses will be well served by politically motivated federal government intrusion into climate risk in insurance that is not grounded in careful and neutral analysis, informed by industry experts.

Sincerely,

Tim Scott
United States Senator

Trey Hollingsworth
United States Representative